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RUEHIL/AMEMBASSY ISLAMABAD 0881
RUEHDJ/AMEMBASSY DJIBOUTI 0031
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PASS DOD FOR DSCS -- PBERG

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TAGS: EFIN ECON EAID XM XA XH XB XF FR
SUBJECT: PARIS CLUB - MARCH 2009 TOUR D'HORIZON AND DISCUSSIONS ON
METHODOLOGICAL ISSUES

¶1. (SBU) Summary: The March 10, 2009 Paris Club Tour d'Horizon covered Afghanistan, Burundi, Central African Republic (CAR), Democratic Republic of Congo (DRC), Cote d'Ivoire, Cuba, Djibouti, Grenada, Haiti, Iraq, Jamaica, the Seychelles, and Sri Lanka. Creditors provided "financing assurances" for Cote d'Ivoire's upcoming IMF program and Paris Club debt treatment. Delegations continued to weigh whether Grenada's handling of debts owed to non-Paris Club creditors justifies granting Grenada's request to extend its 2006 rescheduling. The IMF reported that Haiti could complete the Heavily Indebted Poor Countries (HIPC) initiative, and receive further debt relief, by mid-2009. Creditors await the IMF's debt sustainability analysis for Seychelles and plan to hold a conference call to prepare for April negotiation of the debt restructuring agreement. The Secretariat shared feedback from recent outreach to non-Paris Club creditors, and creditors discussed the IMF and the Secretariat's assessments of the global financial crisis and its implications for the Paris Club. On March 11, creditors negotiated multilateral "Agreed Minutes" with Burundi after it achieved "completion point" under the HIPC initiative. Creditors agreed to cancel 100 percent of Burundi's nearly $135 million debt owed to the Club. End Summary.

Afghanistan

¶2. (SBU) The U.S. had put Afghanistan on the agenda. The IMF reported that the economic, political and security situations remained challenging. Fiscal policy remained weak. The security situation, weak customs collections and the pricing of fuel imports had depressed revenues at a time of high spending. The IMF noted plans to complete the delayed fifth review of Afghanistan's Poverty Reduction and Growth Facility (PRGF) program by the end of April, assuming a sustained improvement in revenue collections and fulfillment of prior actions. Afghan authorities asked the IMF to extend the PRGF program through March 2010, to reschedule the sixth review to September 2009, and to add an additional (seventh) review in March 2010. Afghanistan could reach HIPC completion point no earlier than fall 2009.

Burundi

¶3. (SBU) Recognizing the IMF and World Bank's March 10 decision that Burundi had completed the HIPC initiative, the Club agreed to provide Burundi the customary debt stock reduction. Following remarkably smooth negotiations, creditors signed the Agreed Minutes, providing for cancellation of $129.5 million (96 percent of Burundi's debt); following normal practice, France and Japan also

committed to cancel the remaining $4.8 million Burundi owed them. The IMF's debt relief to date totaled $28 million (in net present value terms); Burundi will benefit from additional debt cancellation worth $105 million under the Multilateral Debt Relief Initiative (MDRI). Full HIPC debt cancellation, including $357 million (net present value) from the World Bank, is expected to total $425 million.

Central African Republic (CAR)

¶4. (SBU) The IMF reported December approval of the third PRGF program review along with an increase in the lending program. The CAR met the fiscal targets with a better-than-programmed surplus. Reserves, however, were sufficient to cover just two months of imports. The World Bank and France were accelerating disbursements, especially for budgetary assistance. The CAR has met most HIPC performance criteria (so-called completion point "triggers") and is

making progress on remaining ones. One major obstacle is that reaching completion point requires creditors holding at least 80 percent of outstanding eligible debt to participate. The Bank reported reaching 79 percent, meaning one more creditor was needed - Taiwan, China, or Argentina. Taiwan has never delivered HIPC relief and China consistently refuses to provide relief in a multilateral

context. This leaves only Argentina, which holds 2-3 percent of the CAR's debt. The IMF expects to approve the fourth review in early April and HIPC completion point in mid-2009.

Democratic Republic of Congo (DRC)

¶5. (SBU) The U.S. had requested that DRC be on the agenda. The IMF reported that the economic situation was deteriorating. The following day, on March 12, the IMF Executive Board approved a rapid access exogenous shocks facility (RAC-ESF) program, along with remedial measures to address the government's recent misreporting. A March IMF staff mission to conduct the periodic "Article IV" review would also explore a new PRGF program.

¶6. (SBU) Regarding the Sino-Congolese mining deal, the IMF reported that the government had assured the Fund that it was focused on engaging the PRC on the sovereign guarantees and increased concessionality. The DRC's letter of intent seeking emergency financing under the RAC-ESF committed the authorities to refrain from contracting new debts that could jeopardize debt sustainability. The IMF said it was aware of the PRC Ambassador to the DRC's statements that the deal would not be renegotiated and that pressure to do so was "blackmail." The U.S. delegation pressed

the Fund on why the RAC-ESF letter of intent fell short of the Fund's January report to the Club, which had indicated the DRC would commit to eliminate the second infrastructure tranche and renegotiate guarantees and concessionality. The Fund representative had no specific answer.

¶7. (SBU) The U.S. also questioned an assertion in the RAC-ESF document that the Paris Club had "acquiesced" to continued accumulation of arrears. The IMF representative replied that this assertion had referred to the Club's lack of response when he informed the Club in January that arrears would continue to accumulate. He agreed that using the word "acquiesce" was unfortunate; the document should have stated that the Club "did not object." Noting the G-7 letter last year, Japan reiterated the need to address the Chinese loans, to review the feasibility study (the IMF and WB reps had no update), and, given concern about assistance to DRC, to consider the matter carefully.

Cote d'Ivoire

¶8. (SBU) After contentious discussions, creditors provided financing assurances for Cote d'Ivoire's new PRGF program. The IMF recalled that it had found Cote d'Ivoire eligible for HIPC in

December 2008, based on end-2007 data on the ratio of debt to government revenues. The IMF Executive Board signaled the possibility of approving a new PRGF program and decision point at the same time, provided Cote d'Ivoire met several prior actions.

¶9. (SBU) A February IMF mission concluded that the authorities had met these criteria. The Fund believed that performance under the two Emergency Post-Conflict Assistance (EPCA) programs had been "broadly satisfactory," despite unprogrammed fiscal expenditures, particularly to construct the new capital. End-2008 fiscal

performance had actually been "close to targets," although the primary surplus target had been missed by 0.4 percent of GDP, financed through accumulation of domestic arrears. Cote d'Ivoire met other end-2008 targets, including eliminating tax exemptions on food staples, oil, and cocoa, and had put in place safeguards on large public works. Finally clearing its arrears to the African Development Bank, the authorities expected to clear arrears to other multilaterals by end-March. The IMF and Cote d'Ivoire had reached ad referendum agreement on the PRGF program, paving the way for the IMF Executive Board's March 27 PRGF program and HIPC decision point approval. The authorities had also committed to complete a 2009 budget, to implement an automatic petroleum price mechanism, to issue a decree to limit Treasury advances, and to publish the 2008 budget execution documents.

¶10. (SBU) The IMF also asserted that Cote d'Ivoire faced significant financing gaps, estimated at 30 percent of GDP, during 2009-2011. The IMF reported that the Club would need to provide exceptional debt relief, in particular on so-called "post-cut off debts"(debts originally extended prior to 1983), given the country's very limited capacity to pay. The Secretariat believed that capacity to pay all non-multilateral creditors - public and private - would be on the order of $100-120 million annually. Cote d'Ivoire owed $4 billion to the Club in 2009 alone, including arrears, late interest and installments coming due. The Secretariat concurred with the IMF that an exceptional treatment covering short-term debt and post-cut off debt (much of which is owed to France) was needed.

¶11. (SBU) Creditors debated what type of treatment would be appropriate and how to handle different categories of debt, including private sector debt. The Secretariat emphasized that the private debt (including $1 billion in arrears) should be considered pre-cutoff and therefore subject to deeper debt relief. At the same time, the Secretariat believed that the Club [in effect, France] should receive a "major part" of the repayment capacity, to which the Ivorian Finance Minister has reportedly agreed. While the Fund pointed out that the 2002 London Club deal had already treated private sector debt on HIPC-comparable terms, Club members understood that private sector creditors would also need to make extra efforts. In previous reports to the Club, the IMF had

expressed concern that Cote d'Ivoire might no longer qualify for HIPC after March 2009. The Fund revealed that the country would still likely have qualified using end-2008 data; detailed analysis was pending. The IMF expected the HIPC "common reduction factor" would be just over 23 percent, since the ratio of Cote d'Ivoire's debt (net present value) to government revenues, after traditional debt relief, was still equivalent to 327 percent.

Cuba

¶12. (SBU) Paris Club creditors last discussed Cuba at the October 2008 meeting after the authorities signaled interest in discussions with the Club. The authorities had not, however, contacted the Secretariat again. The Secretariat reminded creditors that extending new short-term credits was acceptable, but that medium- or long-term credits would require discussion in the Club, based on the current understanding among creditors.

¶13. (SBU) Spain reported that Cuba had asked to renegotiate short-term debt and open a medium-term line of credit. At a meeting in Madrid, Cuba asked to eliminate short-term debt. Spain was "generous, but not too generous." Cuba also requested cancellation of medium-term debt; Spain refused. Australia reported receiving an

informal request, through Mexico, for medium-term export financing,

to which it had not responded. The Netherlands reported there had been bilateral talks in 2008, and there could be a meeting in April. France said there had been political contacts but no economic discussions during former Foreign Minister Lang's recent visit. Russia indicated that bilateral contacts had progressed significantly in recent months, notably with an exchange of high-level visits. An intergovernmental commission had met; Cuba had made many requests, including for an ambitious loan program to buy agricultural machinery. The discussions seemed to ignore the huge Soviet-era debt problem, where there was "no hint" of a solution. Russia had provided some grants ($7 million for food); both sides are discussing $30 million in new grants.

¶14. (SBU) Paris Club Co-Chairman Coeure stressed solidarity in the context of these growing Cuban requests; creditors are free to provide grants but should refuse medium- and long-term loans until Cuba makes serious efforts to engage on debt.

Djibouti

¶15. (SBU) At Italy's request, creditors discussed lack of progress in concluding bilateral agreements to implement the October 2008

Agreed Minutes. In those negotiations, Djibouti attempted to exclude certain debts that it alleged were illegitimate, even though Djibouti had acknowledged them in the debt data reconciliation process. No creditor reported having signed a bilateral agreement ahead of the March 31 deadline. Italy reported that Djibouti was trying to exclude certain interest installments (though not late interest) from the agreement, indicating it did not recognize interest as part of the agreement. Spain reported that, while Djibouti had not responded regarding commercial debt, the authorities had indicated that they expected "better treatment" than the signed Paris Club Agreed Minutes. France reported that Djibouti had asked for separate agreements - official development assistance (ODA) debt first, followed by an agreement treating commercial debt. France was unwilling to comply. The German delegate reported that she was unaware of problems, that agreement had been reached on numbers, and that both sides were looking at the draft text. The Chair said Djibouti deserved a firm letter reminding it of its obligations, urging rapid completion of the bilateral agreements, but providing an extension. The Fund reported that the global financial crisis had limited impact on Djibouti in 2008, due to the country's low level of integration in the world economy; it was likely to be felt more acutely in 2009.

Grenada

¶16. (SBU) The discussion focused on Grenada's request to extend the May 2006 rescheduling by 12 months to match extension of its Fund program. The Club remained concerned about whether the authorities' refusal to seek comparable treatment from Kuwait and Trinidad and Tobago violated the 2006 Agreed Minutes. According to the Secretariat, the authorities had indicated during the 2006 negotiations that they did not wish to seek comparable treatment from Kuwait, which was providing new assistance in the wake of Hurricane Ivan. At the time, the Paris Club president had also stated verbally that comparability of treatment should not be sought at all costs.

¶17. (SBU) The Club must now consider whether it had agreed to this exception, since the May 2006 Agreed Minutes only contained explicit exclusion of a port debt owed to the Netherlands. The Dutch representative recalled that Grenada's debts to the Netherlands, Kuwait, and Trinidad and Tobago were owed by public enterprises. The Dutch exclusion, therefore, implied that comparable treatment need not include similar loans owed to non-Paris Club creditors.

The Secretariat agreed to research and confirm its understanding that Kuwait's loan was indeed extended to Grenada's central government. No payments were due to Trinidad and Tobago between 2006 and 2009, according to Grenada, so the May 2006 rescheduling

would not have affected these claims.

¶18. (SBU) Grenada had argued in a March 4 letter to the Club that new concessional lending from Kuwait contained a grant element that made it equivalent to comparable treatment; the Club was generally dismissive of this argument. Some creditors called for maintaining strict comparability of treatment; one, in particular, cautioned against a more flexible definition of comparability, noting creditors like China. Citing the recent failures of Trinidad and Tobago's CL Financial Group and the Stanford Group, the IMF argued that global developments were impacting Grenada although the banking sector seemed resilient. Given that 2009 would require significant fiscal consolidation, with a primary deficit of 2.1 percent of GDP, the IMF said that extending the 2006 Paris Club treatment would be welcomed.

Haiti

¶19. (SBU) The IMF said its Executive Board had approved on February 11 the fourth PRGF program review as well as $36 million in additional lending capacity for Haiti because of hurricane damage and drops in remittance flows and exports. Reconstruction efforts were supporting growth. Demands for electricity and reconstruction

were driving up the current account deficit. IMF staff plan to visit Haiti shortly to update 2009 projections and examine performance on the PRGF program and on HIPC completion point triggers. The Fund's interim view, however, was that macro performance through December was fairly good.

¶20. (SBU) A subsequent early May IMF mission would prepare for the fifth PRGF program review, with the hope that completion point could come at the same time, around the middle of 2009. The World Bank representative said that it would be completing a country assistance strategy by mid-year and noted the letter from members of Congress to President Zoellick urging a suspension of all payments. Bank staff promised to follow up in response to the UK's question whether Haiti is paying the World Bank. Haiti is seeking $125 million in support at the April 13-14 donors conference in Washington.

Iraq

¶21. (SBU) Creditors reported that Iraq had corrected problems with its January 1 payments -- the first due under Iraq's 2004 Paris Club treatment -- and was now current. There was no further information on an agreement with the United Arab Emirates allegedly cancelling 100 percent of Iraq's debt. In response to a U.S. inquiry, Brazil

indicated that it had "no news" on its bilateral agreement. When Co-Chairman Coeure asked about the GOB's approach, the Brazilian delegate replied that the bilateral was not concluded, and she "did not know how long it would take." Coeure commented this was "a pity." France stated that press reports from President Sarkozy's recent trip, which had suggested that France was planning to swap or otherwise treat the remaining 20 percent of its claims, were incorrect. France had no plans to move beyond the treatment already provided.

Jamaica

¶22. (SBU) The IMF reported on the deteriorating situation; Jamaica could soon need a Fund program and debt treatment. The IMF recalled that Jamaica had long struggled with slow growth (averaging 1 percent annually since 1991) and debt distress since the 1990s banking crisis. Debt today totals 114 percent of GDP, despite a program designed to bring it to 100 percent. With a narrow export base and reliance on energy imports, remittances and foreign financing, the interest rates on Jamaica's sovereign bonds had soared to 1,000 basis points above the equivalent risk-free rate. Moody's had downgraded the country from B1 to B2, but Jamaica had managed to make a $200 million Eurobond payment on February 11.

There was little room for countercyclical fiscal policy. The GOJ had not requested an IMF program when Fund staff visited the week of March 2. The Bank noted that Jamaica had received $100 million for fiscal and debt service in January, and was expected to receive $300 million from the Inter American Development Bank for onlending.

Seychelles

¶23. (SBU) The Fund reported that a February mission had found strong program ownership, with most December 2008 targets met despite the external environment's significant deterioration. The IMF was revising its debt sustainability analysis (DSA) based on the four scenarios the Club had requested. The DSA would show debt levels to be highly unsustainable and on an explosive path. The Secretariat plans to prepare a working paper and host an early-April conference call to discuss the scenarios and ask questions, but not take a final decision on the treatment's structure. There were significant misgivings about this procedure; Germany requested a summary after the conference call. South Africa remains interested in participating in the negotiation; however, Malaysia will not.

Sri Lanka

¶24. (SBU) The IMF's briefing indicated that 2009 exports were expected to drop about 15 percent, thus increasing further the current account deficit. The government had indicated that it intended to seek IMF assistance, and discussions took place during the following weeks. A creditor asked about military spending. The IMF did not expect Sri Lanka to seek debt relief from Paris Club. Since the Club had not provided any debt treatment beyond the special tsunami relief in 2005, the Club agreed to launch a data call in spite of German and Austrian concerns about sending signals to markets.

Methodological Issue:
Outreach to Non-PC Creditors

¶25. (SBU) The Secretariat reported on responses to its outreach efforts, specifically the January 2009 letter sent to eleven non-Paris Club creditors (Abu Dhabi/UAE, Bulgaria, China, India, Kuwait, Malaysia, Portugal, Romania, Saudi Arabia, South Africa and Turkey). While no country had yet responded formally, Abu Dhabi/UAE and Malaysia had both indicated willingness to share debt data. South Africa would like to participate in the upcoming negotiation

with Seychelles and had provided debt data. A Chinese trade ministry official (DAS-level Gao) had told Co-Chairman Coeure during the week of March 2, in Beijing, that while unwilling to share data,

China was willing to continue a dialogue with the Club. Gao indicated the ministry will reply to the Secretariat's letter. The French Embassy in New Delhi had received an informal GOI response, but no official statement about sharing information. Following comments by Germany and Italy, the Secretariat promised to review the Working Paper, based on the action plan and comments received, in time for discussion in April.

¶26. (SBU) The Secretariat also confirmed that it had discussed with the Institute for International Finance (IIF) the next private sector outreach meeting, scheduled for mid-2009. The Secretariat intends to invite the non-Paris Club "outreach" countries and would like to continue to discuss the difficult topic of so-called "vulture funds," with the IIF.

Methodological Issue:
The Financial Crisis and its
Consequences for the Paris Club

¶27. (SBU) Norway had requested discussion of the crisis to learn

more about G-20 discussions. The IMF and the Secretariat provided their assessment of potentially vulnerable countries that might be seen as candidates for Paris Club treatment. The Fund provided a detailed presentation, based on its recent public report "The Implications of the Global Financial Crisis for Low-Income Countries"(LICs). While the crisis had initially impacted industrial and emerging countries, the Fund believed that LICs would increasingly feel the effects through reductions in trade, FDI, aid and remittance flows. Along with the food and fuel shocks of 2007-8, this "third wave" of the global financial crisis was reversing LICs' hard-won poverty reduction gains. Most remarkably, the presentation revealed a sharp downturn in the IMF's outlook for LICs since the Fund's Spring 2008 forecast. GDP growth estimates fell by about two percentage points and current account deficits rose by about the same amount. Donors, the Fund argued, needed to provide scope for countercyclical fiscal policy in LICs.

¶28. (SBU) Although the IMF declined to name specific countries when the Paris Club discussed the same topic in December 2008, the IMF said in March that 22 LICs faced acute financial constraints. In 2009, these countries needed $25 billion in additional financing -- an amount that could rise considerably higher if downside risks materialize:

-- Countries having started but not yet completed the HIPC

initiative: Chad, Cote d'Ivoire, Guinea, Sudan

-- Countries having started but not yet completed the HIPC initiative: Ghana, Honduras, Madagascar, Malawi, Mauritania, Sao Tome, Senegal, Zambia

-- Non-HIPCs: Angola, Armenia, Cape Verde, Dominica, Moldova, Mongolia, Pakistan, Saint Lucia, Sri Lanka, Tajikistan

¶29. (SBU) The Secretariat's presentation covered both low- and middle-income countries that were potential candidates for debt treatment. These included LICs that have started but not yet completed the HIPC initiative process, LICs that have completed the HIPC process, and middle-income countries that could seek Paris Club treatment in the near term. Some have IMF programs or will have Fund programs soon. Others are being monitored closely because they are experiencing foreign reserves stress.

¶30. (U) The next Paris Club meeting is scheduled for April 14-15,
¶2009.

¶31. (U) For more detailed information on any of the above-mentioned countries, please contact EEB/IFD/OMA David Freudenwald or Nicholle

Manz.

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PEKALA